



Uttlesford District Council

General Fund Investment Strategy 2018/19



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Introduction

The Council recognises that as a consequence of reducing government funding there is an increased requirement to generate additional income to underpin the core services provided by the Council to its residents. By way of illustration, a 1% rise in Council Tax is equivalent to about £50,000 in additional income. An emerging funding gap means that other solutions need to be identified.

In 2016 the Council took the decision to make strategic investments. At present only strategic investments that are within the district boundary are being considered. There are four main types of investment that the Council could make:

- Commercial Property - acquisition or purchase of land on which to build

This is the preferred investment route for the Council. In May 2017 the Council, through its wholly owned subsidiary Aspire (CRP) Ltd, acquired a 50% share in Chesterford Research Park. As part of the Cambridge Life Science cluster the Park is world renowned, having been in existence for 18 years, with available space to significantly increase the commercial floorspace, plus expand the Park into other areas of research to diversify and reduce the investment risk.

In March 2017 the Council agreed to purchase 5 acres of land, subject to planning permission being granted, in Little Canfield. Whilst the primary purpose of the site is to co-locate the existing three Council depots there will be sufficient space for the building of two commercial units to rent.

During 2018/19 the Council will be taking on a 10 year lease of four office units at the new housing development at Walpole Farm, Stansted.

- Commercial Property - build on land owned by the Council

The Council has no land suitable for commercial development

- Residential Property - build on land owned by the Council

The Council has a limited amount of General Fund land on which houses could potentially be built. The Council has taken the view that developing land, other than for HRA use, should be left to developers and therefore suitable land will be sold with outline planning permission. Capital receipts received will be used to finance other investment opportunities.

- Residential Property - acquisition or purchase of land on which to build

This would be non-HRA properties let at market rents. Property prices in the District are higher than the UK average and as such the yield arising on pre-built properties to rent at market value, is uneconomic. The option to purchase land for development may arise in the medium-term as the Council develops the Garden Community model of housing delivery.

Contribution

It is expected that for 2017/18 (part year) the net contribution to the Council budget from these investments will be circa £1,500,000

The Council recognises that, to support the budget ongoing and to ensure the continued delivery of services at the level currently provided, further investment in the expansion of Chesterford Research Park and potentially an additional large scale investment will be necessary.

Indicators

Chesterford Research Park (£47.25m) debt funded by

Financial Institutions - £37m for 40 years on a repayment basis @ 2.86% fixed. The drawdown of this funding is as follows

1 July 2017 - £10m
1 July 2021 - £12m
1 July 2022 - £15m

Whilst this loan is being drawn down the balance will be funded by a mix of local authority and internal borrowing – The amount of each varies during the year dependant on the level of UDC balances available. Average interest rate, interest only, is 0.45%

Loans to Aspire are made at an interest only basis @ 4%. For Chesterford Research Park, in addition to loan income received there is also repayment of staff time and potential for dividends.

For 2017/18 (part year) the income from Chesterford Research Park is £1,800,000 with the cost of borrowing being £300,000.

Security, Liquidity and Yield

As the Council only has a small amount of money of its own to invest, any further expansion of the investment strategy will necessarily be funded from a mix of external borrowing, from financial institutions, Public Works Loan Board (PWLB) and other local authorities. The Council will not invest in high yield, high risk opportunities. This will be reflected in yield expectations which are currently 4 – 7%.

Asset investments will, where possible, be based on a 40 year life span which is in accordance with current DCLG guidance. Financial models, both income and expenditure will be prepared based on this time period. If the business case does not work on a 40 year financial basis, the investment will not be recommended to Council for approval.

Should the Council require the funds (either the reserves invested or to repay the loans taken out) to be available for other uses there are options depending upon the purchase route. For Aspire (CRP) Ltd the request goes to the Board who will decide whether to seek external funding or to invoke the sale of the Park.

Where the investment vehicle is Council only, for example at the new depot site, the options to liquidate funds are either by selling the investment (or part thereof) or by refinancing the debt.

Loans to wholly owned subsidiaries

In May 2017 the Council loaned to its wholly owned subsidiary Aspire (CRP) Ltd the sum of £47.25m to purchase a 50% share in Chesterford Research Park. The loan is at a commercial rate of 4% interest only basis for 50 years. The Council funded this through a mix of reserves and a £37m loan from Phoenix Life on a full repayment basis over 40 years.

The Council will continue to assist Aspire (CRP) Ltd with additional loans as new buildings are required or existing ones refurbished. In July 2017 the Council authorised a loan of up to £2.7m on the same terms for the refurbishment of Building 60. This loan will be funded from a mix of local authority borrowing and funds from the PWLB or commercial lenders.

It is the Council's expectation that over the next 15 years the Council will invest a further £50m in building out the rest of Chesterford Research Park with most of the funding required being obtained through borrowing from PWLB or commercial lenders.

Risks

Each investment must be considered independently and only those viewed as having a positive expected yield and an acceptable risk profile will be taken forward for consideration by the Council.

The Council takes advice from its professional advisers at all times. For example, with the purchase of the 50% share at Chesterford Research Park the Council engaged

- Arlingclose as its financial advisers who project managed the funding tender
- Cushman and Wakefield who undertook all of the purchase negotiations and due diligence
- Hogan Lovells for Legal due diligence

For Aspire (CRP) Ltd the Council has appointed two non-executive directors to serve on the Board and bring independent challenge and support.

Use of specialists will vary between investments which will ensure the continued professionalism and sector knowledge.

Proportionality

The aim of the Investment Strategy is to generate income to underpin the Council's core budget. The Medium Term Financial Strategy Reserve will be maintained at a level that as a minimum covers the cumulative annual interest amount for the General Fund investment loans. This ensures that if there is a material downturn or variance against budget in one or more investment the Council has sufficient reserves to cover the cost of the loan.

The Council's main investment at Chesterford Research Park comprises eleven core buildings and circa twenty tenants. For the income to be below the interest repayment amount three of the seven largest tenants would be required to default on their tenancy agreement at the same time. Even with this relatively low risk it is important to attract different types of research business to the Park.

The Council's MTFs currently identifies that the income received from the investments will be used to underpin the core services, to invest in other income generating opportunities and also good causes for the district.

Capacity, skills and culture

Each investment opportunity is fully evaluated prior to presentation to Full Council for a decision. Large scale investments, such as Chesterford Research Park, would include several Member briefings prior to the Full Council decision. Where appropriate, delegation is given to the Leader, Finance Portfolio Holder and S151 Officer (or Assistant Director of Resources for Aspire investments) to conclude investments and loans that have been approved by Full Council.

The Council employs experts in the fields of funding, negotiations, property due diligence and legal due diligence to support the councillors and statutory officers in their decision.

The Treasury Management Strategy sets out the Council's borrowing limits and these are reported as part of investment opportunity evaluations.

The wholly owned subsidiaries (the Aspire companies) all have the Cabinet as the shareholder board with funding requests being approved by Full Council. From 2018/19 the Aspire companies will use the Council's external auditors as their audit advisors. The companies also use one of the other major audit firms as tax advisors.